

# Texas Manufacturing Outlook Survey

January 29, 2018

## Texas Manufacturing Expansion Continues

### What's New This Month

The surveys now include a new index that gauges business executives' uncertainty regarding their company's outlook. The materials inventories index has been discontinued and the index will no longer appear in the historical data files. The annual seasonal factors revisions have been moved from January to April.

Texas factory activity continued to expand in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained elevated but retreated to 16.8 after surging to an 11-year high in December.

Most other measures of manufacturing activity also pointed to somewhat slower growth in January after the rapid expansion seen in December. The new orders index moved down from 30.1 to 25.5, and the growth rate of orders index fell six points to 15.5. The capacity utilization index also stayed positive but declined, dropping 12 points to 14.5. Meanwhile, the shipments index rose six points to 27.1, indicating a pickup in growth.

Perceptions of broader business conditions remained highly positive in January. The general business activity index pushed up further to 33.4, its highest reading in more than 12 years. The company outlook index remained elevated but edged down to 27.8.

Labor market measures suggested a slight deceleration in employment growth and longer workweeks this month. The employment index came in at 15.2, down five points from December. More than a quarter of firms noted net hiring, compared with 12 percent noting net layoffs. The hours worked index declined but remained positive at 13.4, suggesting a continued lengthening of workweeks.

Upward pressure on prices and wages remained elevated in January. The raw materials prices index ticked up one point to 33.5, and the finished goods prices index rose four points to 22.3. Meanwhile, the wages and benefits index stayed well above its average reading but inched down to 23.3.

Expectations regarding future business conditions were even more optimistic in January. The index of future general business activity rose four points to 44.5, its highest level since December 2004. The future company outlook index edged up to 43.2, also a relatively high level. Other indexes of future manufacturing activity pushed further into positive territory.

**Next release:** Monday, February 26

Data were collected Jan. 16–24, and 97 Texas manufacturers responded to the survey. The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Firms are asked whether output, employment, orders, prices and other indicators increased, decreased or remained unchanged over the previous month

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease. Data have been seasonally adjusted as necessary.

## Results Summary

### Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	16.8	32.8	-16.0	Increasing	19	35.7	45.4	18.9
Capacity Utilization	14.5	26.3	-11.8	Increasing	19	31.7	51.1	17.2
New Orders	25.5	30.1	-4.6	Increasing	15	38.3	48.8	12.8
Growth Rate of Orders	15.5	21.4	-5.9	Increasing	13	28.5	58.5	13.0
Unfilled Orders	7.1	9.2	-2.1	Increasing	13	18.2	70.7	11.1
Shipments	27.1	21.5	+5.6	Increasing	14	40.4	46.4	13.3
Delivery Time	9.0	8.0	+1.0	Increasing	7	16.5	76.0	7.5
Finished Goods Inventories	0.0	-2.0	+2.0	Unchanged	1	14.6	70.8	14.6
Prices Paid for Raw Materials	33.5	32.5	+1.0	Increasing	23	36.1	61.3	2.6
Prices Received for Finished Goods	22.3	17.9	+4.4	Increasing	18	25.7	70.9	3.4
Wages and Benefits	23.3	25.1	-1.8	Increasing	98	26.9	69.5	3.6
Employment	15.2	20.4	-5.2	Increasing	13	26.9	61.4	11.7
Hours Worked	13.4	23.3	-9.9	Increasing	15	26.9	59.6	13.5
Capital Expenditures	20.0	19.0	+1.0	Increasing	17	24.6	70.7	4.6

### General Business Conditions

#### Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	27.8	31.5	-3.7	Improving	17	34.6	58.6	6.8
General Business Activity	33.4	29.7	+3.7	Improving	16	39.0	55.4	5.6

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	-8.3	#N/A	#N/A	Decreasing	1	11.5	68.8	19.8

**Business Indicators Relating to Facilities and Products in Texas**  
**Future (six months ahead)**

Indicator	Jan Index	Dec Index	Change	Indicator Direction	Trend* (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
<b>Production</b>	51.6	47.4	+4.2	Increasing	107	59.2	33.2	7.6
<b>Capacity Utilization</b>	46.4	39.9	+6.5	Increasing	107	54.9	36.6	8.5
<b>New Orders</b>	51.2	50.8	+0.4	Increasing	107	56.1	39.0	4.9
<b>Growth Rate of Orders</b>	40.4	40.1	+0.3	Increasing	107	44.6	51.2	4.2
<b>Unfilled Orders</b>	14.0	16.2	-2.2	Increasing	28	21.5	71.0	7.5
<b>Shipments</b>	50.2	46.9	+3.3	Increasing	107	54.9	40.4	4.7
<b>Delivery Time</b>	5.7	6.9	-1.2	Increasing	14	15.8	74.1	10.1
<b>Finished Goods Inventories</b>	11.7	12.4	-0.7	Increasing	3	22.3	67.0	10.6
<b>Prices Paid for Raw Materials</b>	44.0	52.1	-8.1	Increasing	106	46.2	51.6	2.2
<b>Prices Received for Finished Goods</b>	36.2	42.7	-6.5	Increasing	24	41.5	53.2	5.3
<b>Wages and Benefits</b>	56.9	44.2	+12.7	Increasing	164	59.9	37.1	3.0
<b>Employment</b>	44.5	36.6	+7.9	Increasing	62	53.3	37.9	8.8
<b>Hours Worked</b>	14.4	13.5	+0.9	Increasing	20	22.6	69.2	8.2
<b>Capital Expenditures</b>	36.2	43.2	-7.0	Increasing	98	43.6	48.9	7.4

**General Business Conditions**  
**Future (six months ahead)**

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Worsened
<b>Company Outlook</b>	43.2	40.1	+3.1	Improving	24	47.4	48.4	4.2
<b>General Business Activity</b>	44.5	40.9	+3.6	Improving	20	48.1	48.3	3.6

\*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

\*\*Number of months moving in current direction.

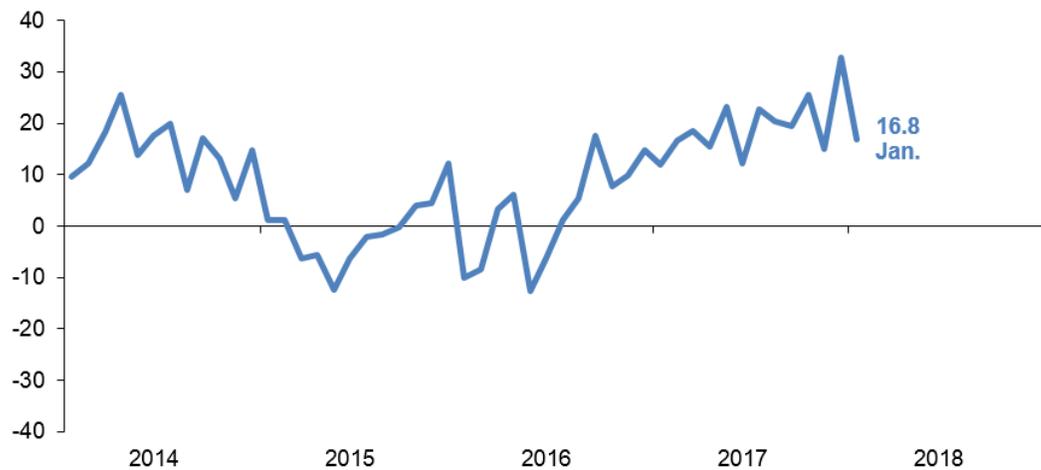
†Added to survey in January 2018.

Data have been seasonally adjusted as necessary, with the exception of the outlook uncertainty index which does not yet have a sufficiently long time series to test for seasonality.

## Production Index

### Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

## Comments from Survey Respondents

These comments are from respondents' completed surveys and have been edited for publication.

### Plastics and Rubber Products Manufacturing

- I am uncertain but concerned we are looking at a short-term positive market.

### Fabricated Metal Product Manufacturing

- Labor is still the largest problem facing our business. We are still unable to find candidates who can perform the basic duties of employment. First and foremost, show up to work, and second, on time.
- The first two weeks were seasonally slow with a slight drop in transactions from fourth quarter 2017 levels, but I believe this is post-holiday blues and that first quarter 2018 activity will match fourth quarter 2017. Customers are upbeat. Commodity inflation (steel and oil) is coming.
- We are experiencing a return to normal volumes following a slow November and December (the plant had an extended shutdown for the last two weeks of December). The year-end slowdown resulted primarily from inventory reductions at customer plants.
- A pickup in the general economy is fueling construction starts and improvements faster than in the past, when it typically lagged behind by about six months.
- We are still in the process of trying to restore our production facilities from flood damage from Hurricane Harvey. Insurance recovery has been slow from FEMA, requiring all of our repairs to be paid out of our bank line of credit. We are starting to see more activity in projects being started that have been planned for some time.

### Computer and Electronic Product Manufacturing

- The lower dollar has helped exports, and we have seen a pickup in capital equipment production in the last three months.
- We continue to believe we will have growth following a very strong 2017. December was unusually weak, and the weakness was broad based. It was a reason for concern, but order rates/shipments rebounded in January, and our backlog/outlook for the first quarter shows continued growth.

## Transportation Equipment Manufacturing

- The favorable economic news and optimism continues to build. The reality of available resources and pricing may set in within the next six months, but that will be a good problem to have and will encourage businesses to become more efficient. Positive results can be their own constraint.

## Food Manufacturing

- We will spend all of the money we will save as a result of lower taxes on equipment, which will make us more efficient and generate more profits in the years to come.
- Retail food sales have continued to improve.

## Miscellaneous Manufacturing

- We may not like the way things are communicated and the division in the country, but the policies are improving conditions for the workers and employers. We will be putting our tax savings and costs savings from a reduced regulatory environment back into expanding the business and hiring more people. The U.S. is more competitive internationally, but it's still far from ideal. We increased salaries and bonuses as a way to retain top talent and hire more quality people. I hope we keep reducing burdensome regulations and start reducing waste, debt, corruption, ineffective programs and the overall size of the government.
  - We are experiencing large volume increases and demand for parts sooner than ordered, predominately in the automotive sector but in other markets as well. We are having difficulty finding new employees and are facing full capacity in the first quarter if sales continue at this level. Also, we are raising existing production employees' hourly rates and increasing our starting rate in production in an attempt to keep good employees and attract new ones.
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